

2014 Indiana Legislative Update:

Major Economic Development
Changes to Taxes and TIFs, and
How to Do Economic Development
Deals in This Changing Environment

September 9, 2014

Incentives and Income/Sales Tax Updates

- Incentive Program Updates
- State Income and Sales Tax Updates
- Other Tax and Administrative Updates
- Trend Towards Transparency and Policy Reviews

Industrial Recovery Tax Credit

- A credit for rehabbing large, old buildings
 - Not to be confused with vacant building abatement
- Requirement that property be vacant for one year has been removed
- New standard
 - Must be at least 15 years old
 - Must be at least 50,000 sf (before 1/1/2015) or 100,000 sf (after 12/31/2014)
- Effective July 1, 2013

Skills Enhancement Fund (SEF)

- 2013 legislation saw expansion of SEF's role
 - Applies to training and re-training incumbent workers, not just new workers
 - Applies to skills to support existing capital investment, not just new capital investment
- Part of trend in making SEF user-friendly

Hoosier Business Investment (HBI) Tax Credit for Logistics

- 2013 legislation provides a credit for up to 25% of the qualified investment for logistics
 - Qualified investment based on increased investment over previous two years
 - Logistics investment is defined by industry
- \$10 million per fiscal year set aside for logistics
 - Anticipated to be a highly-sought after credit
- Effective July 1, 2013

Local EDGE Tax Credit

- Local option hiring incentive created in 2011
- Mirrors state EDGE tax credit
- Lightly utilized to-date

Local EDGE Example

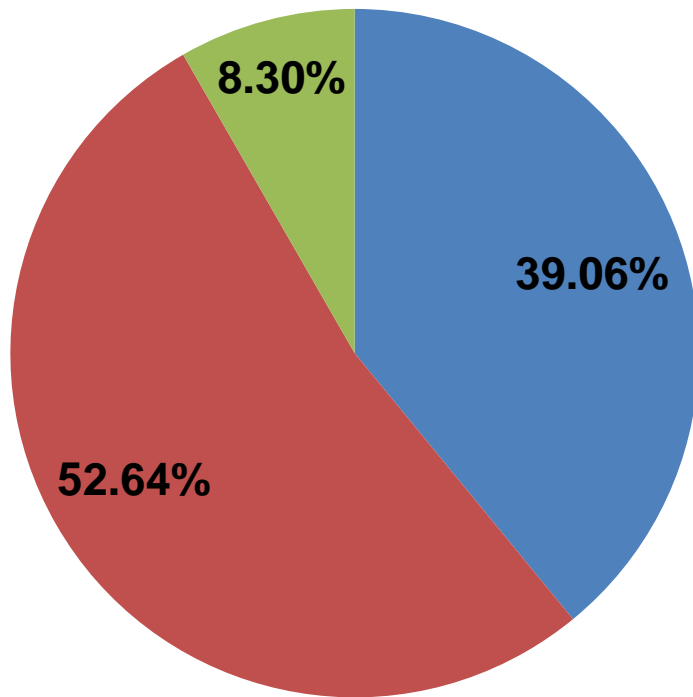
- Newco locates in Marion County, creating 100 jobs averaging \$60,000/year
- Marion County awards a maximum local hiring incentive of 100% for 10 years
- Assuming 60% of employees are Marion County residents, award is estimated at \$583,200
 - $\$60,000 \times 60 \text{ employees} \times 1.62\% \text{ COIT rate} \times 10 \text{ years} = \$583,200$

Reduction in Income Taxes

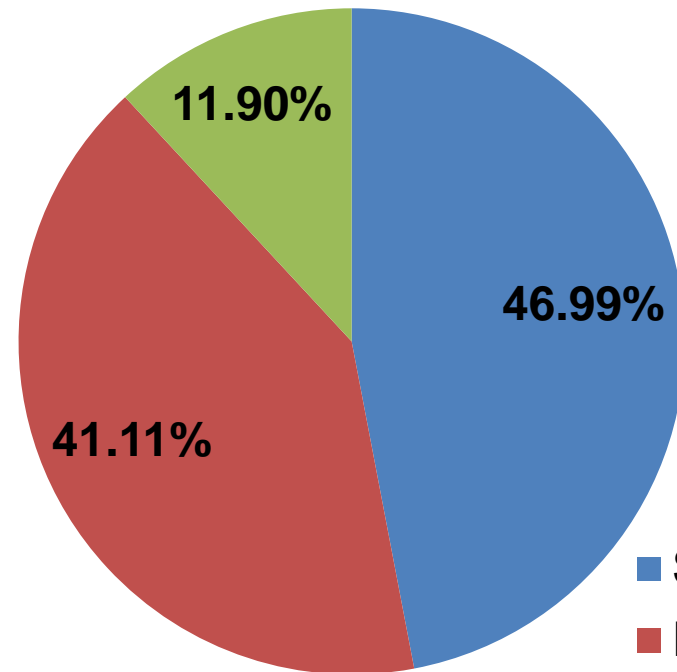
- The past two sessions have seen rate reductions for:
 - Individuals (includes LLCs, S-Corps, and other pass-through activity) in 2013 session
 - C Corporations (as well as the financial institutions tax) in 2014 session
- Continued trend of decreasing income tax rates

Comparison of Indiana's Revenue Sources

1997



2013



■ Sales Tax
■ Income Tax
■ Other

Individual Rate Reduction

	2014	2015	2016	2017
Before 2013 Change	3.4%	3.4%	3.4%	3.4%
After 2013 Change	3.4%	3.3%	3.3%	3.23%

Corporate Rate Reduction

	Before July 1, 2012	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Before 2011 Change	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
After 2011 Change	8.5%	8.0%	7.5%	7.0%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
After 2014 Change	8.5%	8.0%	7.5%	7.0%	6.5%	6.25%	6.0%	5.75%	5.5%	5.25%	4.9%

Note: Changes are as of July 1 of each year. Calendar year taxpayers use a blended rate.

HBI Credit Example with New Rates

- Acme Company awarded a \$100,000 HBI credit
- How much taxable income would Acme have to fully utilize the credit:
 - If a pass-through entity:
 - Under old 3.4% rate: \$2,941,176
 - Under new 3.23% rate: \$3,095,975
 - If a C-Corporation:
 - Under old 8.5% rate: \$1,176,470
 - Under new 4.9% rate: \$2,040,816

Credit Against County Economic Development Income Tax (CEDIT)

- 2014 added a credit against CEDIT for taxes paid to out-of-state localities
 - Applicable for tax years beginning in 2015
- Applies for certain Indiana residents earning income out-of-state
- The other county taxes (CAGIT and COIT) already had credit mechanisms

CEDIT Credit Example

- John Doe (Hendricks County resident) and Tim Conrad (Boone County resident) work one month in Columbus, Ohio
 - Both John and Tim would have Indiana, Indiana county, Ohio, and Ohio locality income tax reporting obligations
- Tim gets a full credit against his Boone County COIT
- Historically, John could not get full credit for the tax he paid to Columbus since Hendricks County has a CAGIT/CEDIT mix
 - Beginning in 2015, John can get full credit

Sales Tax

- Expansion of R&D exemption in 2013
 - Includes persons other than ultimate manufacturer
 - Broadened items that qualify
 - Effective July 1, 2013
- While sales tax continues to be a growing source of revenue, businesses are afforded several exemptions

Repeal of Death Tax

- Originally phased out beginning in 2012
- Repealed in its entirety as of January 1, 2013
- Was never a significant revenue raiser

Office of Small Business and Entrepreneurship

- Created by 2014 legislation to promote small business growth
 - Director appointed by the lieutenant governor
 - Effective May 1, 2014
- Small business ombudsman
 - Work with state agencies to permit flexibility
 - Consolidate forms and eliminate duplicated paperwork
 - Coordinate with the OMB to perform cost-benefit analyses
 - Review outdated information requests from state agencies
 - Resolve compliance matters between a state agency and a small business (including granting “common sense exemptions” to first-time offenders)

Focus on Transparency

- IEDC transparency portal
- 2013 legislation
 - Adds several items to IEDC's annual report (e.g., actual jobs created, recaptured incentives, etc.)
 - Despite exemption under public records laws for negotiations with IEDC, incentives agreements are open to inspection

Focus on Tax Policy

- 2014 legislation calling for review
 - Blue Ribbon Commission – study group designed to research property tax system
 - IEDC to perform review of regional areas
 - All “tax incentives” to be reviewed by Commission on State Tax and Financing Policy
 - Includes exemptions, deductions, and other tax benefits
- Tax Competitiveness and Simplification Conference
 - Held June 24, 2014
 - Report forthcoming

Property Tax Updates

- Property Tax/Abatement Updates
- Effect of Tax Cap on Abatement Example

Indiana Assessment Date

- Currently, Indiana has an assessment date of March 1
- Beginning in 2016, Indiana is changing the assessment date from March 1 to January 1
- Personal property filing date will remain May 15

Real Property Tax Appeals

- Burden of proof shift
 - Effective March 25, 2014 – If the gross assessed value of real property increases over the assessment from the prior year that was subject to an appeal, assessor has the burden of proof. Does not apply if real property was valued using income capitalization approach.
 - Prior to March 25, 2014 – If the assessment increases more than 5% over the assessed value determined by the county from the prior year, assessor has the burden of proof.

Personal Property

- Nuisance returns
 - Effective July 1, 2015 - County income tax council has the ability to exempt companies from personal property taxation if the acquisition cost of their personal property is less than twenty thousand dollars (\$20,000).
 - If ordinance is adopted then annual certificate is filed to assessor instead of personal property return.

Vacant Building Deduction

- Eligible vacant building
 - Zoned for commercial or industrial purposes. Unoccupied for at least one year before the building or tenant of the owner occupies the building.
 - Previously this deduction was a two-year deduction.
- Deductions approved after June 30, 2013
 - Designating body shall establish an abatement schedule not exceeding 10 years.

Abatement Schedule

- Form SB-1/PP approved after June 30, 2013
 - Designating body is required to establish an abatement schedule for each deduction allowed and may not exceed 10 years.
- Form SB-1/PP approved after June 30, 2015
 - Designating body is required to establish an abatement schedule for each deduction allowed and may not exceed 20 years.

Effect of Tax Cap on Abatement

- 2010 – Voters passed an amendment to the State Constitution making tax caps permanent
- 1% - Owner-occupied primary residence (Homestead)
- 2% - Residential property other than homestead, agricultural, long-term care facilities
- 3% - Commercial and other real property

Effect of Tax Cap on Abatement

	Total	Abated	Non Abated		TOWN/TOWNSHIP:	CLERMONT - WAYNE TWP
INVESTMENT (real):	\$2,000,000	\$ 2,000,000	\$ -		DISTRICT #:	49904
	-	-	-		TAX RATE:	0.042673
					Referendum Rate: (not subject to Cap)	N/A
TAXES PAID AND ABATED						
	<u>Real</u>		<u>Personal</u>		<u>TOTAL</u>	
Year	<u>Abated</u>	<u>Paid</u>	<u>Abated</u>	<u>Paid</u>	<u>Abated</u>	<u>Paid</u>
Yr 1	\$ 60,000	\$ -	\$ -	\$ -	\$ 60,000	\$ -
Yr 2	\$ 55,730	\$ 4,270	\$ -	\$ -	\$ 55,730	\$ 4,270
Yr 3	\$ 42,930	\$ 17,070	\$ -	\$ -	\$ 42,930	\$ 17,070
Yr 4	\$ 30,130	\$ 29,870	\$ -	\$ -	\$ 30,130	\$ 29,870
Yr 5	\$ 17,330	\$ 42,670	\$ -	\$ -	\$ 17,330	\$ 42,670
Yr 6	\$ 8,790	\$ 51,210	\$ -	\$ -	\$ 8,790	\$ 51,210
Yr 7	\$ 260	\$ 59,740	\$ -	\$ -	\$ 260	\$ 59,740
Yr 8	\$ -	\$ 60,000	\$ -	\$ -	\$ -	\$ 60,000
Yr 9	\$ -	\$ 60,000	\$ -	\$ -	\$ -	\$ 60,000
Yr 10	\$ -	\$ 60,000	\$ -	\$ -	\$ -	\$ 60,000
TOTALS	\$ 215,170	\$ 504,830	\$ -	\$ -	\$ 215,170	\$ 504,830

Effect of Tax Cap on Abatement

- Example:

Assessed Value =	\$2,000,000
Less Abatement – yr.8	<u>(400,000)</u>
Net Assessed Value	\$1,600,000
Times Actual Tax Rate	<u>x 4.2673%</u>
Taxes Due (w/o Cap)	\$ 68,277

- Actual taxes based on 3% cap is $\$2,000,000 \times 3\% = \$60,000$ (vs. \$68,277 above).
- Abatement in year eight on traditional 10-year scale has no value because of the property tax cap.

Marion County 2014 Tax Rates

County	County Name	Tax District (1)	Tax District Name	2014 Certified Gross Tax Rate (per \$100 AV)
49	Marion	101	INDPLS CITY - CENTER TWP	2.955
49	Marion	102	BEECH GROVE CITY - CENTER TWP	5.2834
49	Marion	200	DECATUR TOWNSHIP - SANITATION	4.1772
49	Marion	201	INDPLS CITY - DECATUR TWP	2.904
49	Marion	270	INDPLS-DECATUR TWP-POLICE-OUTS	4.1772
49	Marion	274	INDPLS-DECATUR TWP-POLICE & FI	3.6775
49	Marion	300	FRANKLIN TWP-SANITATION	3.1918
49	Marion	302	BEECH GROVE CITY-FRANKLIN TWP	5.2543
49	Marion	320	BEECH GROVE-FRANKLIN TWP-FRANK	4.183
49	Marion	376	INDPLS-FRANKLIN TWP-FIRE-OUTSI	3.1918
49	Marion	382	FRANKLIN TWP-CONS COUNTY	3.1918
49	Marion	400	LAWRENCE TWP-SANITATION	2.4592
49	Marion	401	INDPLS-LAWRENCE TWP	2.9024
49	Marion	407	LAWRENCE CITY	2.6187
49	Marion	474	INDPLS-LAWRENCE TWP-POLICE & F	2.4592
49	Marion	476	INDPLS-LAWRENCE TWP-FIRE-SAN	2.4592
49	Marion	500	PERRY TWP-SANITATION	3.1701
49	Marion	501	INDPLS-PERRY TWP	2.9026
49	Marion	502	BEECH GROVE - PERRY TWP	5.231
49	Marion	513	SOUTHPORT-PERRY TWP	3.372
49	Marion	520	BEECH GROVE - PERRY SCH	4.1613
49	Marion	523	HEMLOCK - PERRY TWP	3.5882
49	Marion	570	INDPLS-PERRY TWP-POLICE-SANITA	3.1701
49	Marion	574	INDPLS-PERRY TWP-POLICE & FIRE	3.1701
49	Marion	576	INDPLS-PERRY TWP-FIRE-SAN	3.1701
49	Marion	600	PIKE TWP-OUTSIDE SANITATION	2.6476
49	Marion	601	INDPLS-PIKE TWP	2.893
49	Marion	604	CLERMONT - PIKE TWP	2.9853
49	Marion	674	INDPLS-PIKE TWP-POLICE & FIRE-	2.4527
49	Marion	676	INDPLS-FIRE-SAN	2.4527

Marion County 2014 Tax Rates (cont.)

County	County Name	Tax District (1)	Tax District Name	2014 Certified Gross Tax Rate (per \$100 AV)
49	Marion	682	PIKE TWP-CONS COUNTY	2.6476
49	Marion	700	WARREN TWP-SAN	3.3351
49	Marion	701	INDPLS-WARREN TWP	2.9039
49	Marion	702	BEECH GROVE - WARREN TWP	5.2323
49	Marion	716	WARREN PARK-WARREN TWP	3.3473
49	Marion	724	CUMBERLAND TOWN-WARREN TWP	4.8395
49	Marion	770	INDPLS-WARREN TWP-POLICE-SANIT	3.3351
49	Marion	774	INDPLS-WARREN TWP-POLICE & FIR	3.3351
49	Marion	776	INDPLS - FIRE	3.3351
49	Marion	800	WASHINGTON TWP-SAN	2.2011
49	Marion	801	INDPLS-WASHINGTON TWP	2.9037
49	Marion	805	CROWS NEST-WASHINGTON TWP	2.2011
49	Marion	806	HIGHWOODS - WASHINGTON TWP	2.2011
49	Marion	809	NORTH CROWS NEST - WASHINGTON	2.2011
49	Marion	811	ROCKY RIPPLE - WASHINGTON TWP	2.3326
49	Marion	815	SPRING HILL - WASHINGTON TWP	2.2011
49	Marion	817	WILLIAMS CREEK - WASHINGTON TW	2.3775
49	Marion	820	MERIDIAN HILLS - WASHINGTON TW	2.2857
49	Marion	822	WYNNEDALE - WASHINGTON TWP	2.3109
49	Marion	874	INDPLS-WASHINGTON TWP-POLICE &	2.2011
49	Marion	876	INDPLS-WASHINGTON TWP-FIRE	2.2011
49	Marion	900	WAYNE TWP - SAN	4.3727
49	Marion	901	INDPLS - WAYNE TWP	2.9268
49	Marion	904	CLERMONT - WAYNE TWP	4.2673
49	Marion	914	SPEEDWAY - WAYNE TWP	3.077
49	Marion	930	WAYNE TWP - BEN DAVIS CONSERVA	4.3727
49	Marion	970	INDPLS - WAYNE TWP - POLICE -	4.3727
49	Marion	974	INDPLS - WAYNE TWP - POLICE &	3.7347
49	Marion	976	INDPLS-WAYNE TWP-FIRE	3.7347
49	Marion	979	INDPLS-WAYNE TWP-BEN DAVIS CON	3.7347
49	Marion	982	WAYNE TWP-CONS COUNTY	4.3727